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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emissions Standards into Procurement Policies.	Rulemaking 06-04-009 (Filed April 13, 2006) CEC Docket 07-OIIP-01

COMMENTS OF FPL ENERGY PROJECT MANAGEMENT, INC ON ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING COMMENTS AND NOTICING WORKSHOP ON ALLOWANCE ALLOCATION ISSUES

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INTRODUCTION

Pursuant to the Administrative Law Judge's Ruling of October 15, 2007, FPL Energy Project Management, Inc (FPLE) submits its comments to the California Public Utilities Commission ("Commission")[1] regarding emissions allowance allocation issues for the electricity sector. FPLE proposes that 100% auction of the allowances best serves implementation of the AB 32 goals. However, recognizing the potential for economic dislocation in the early years of the carbon reduction program, FPLE accepts that administrative allocation of allowances may be necessary initially. Although the Commission has not yet delineated its final recommendation on point of regulation, the principles discussed in these comments apply whether first seller or load serving is selected.

FPLE[2] is a leading clean energy provider with over 13,000 MW of natural gas, wind, solar, hydroelectric and nuclear power plants in operation in 25 states. More than

[1] Since the Ruling also is directed to the California Energy, Commission, these comments will be directed to both agencies by the designation "Commissions" where appropriate. If there is a need to have a specific reference, the Comments will refer to CPUC or CEC.

[2] FPL Energy, LLC and its affiliates FPL Group, Inc., Florida Power & Light Company, FPL Group Capital, Inc., each have subsidiaries and other affiliates with names that include FPL, FPL Energy, FPLE and similar references. For convenience and simplicity, FPL Energy, FPL Group, FPL and FPL Group Capital, as well as terms like Corporation, Company, our, we and its, are sometimes used as abbreviated references to specific subsidiaries, affiliates or groups of subsidiaries or affiliates. The precise meaning depends on the context.

90% of FPL Energy's electricity is generated by clean fuels. In addition, FPL Energy is the nation's leader in wind energy generation and operates the two largest solar fields in the world. Furthermore, FPLE is an affiliate of a regulated utility, Florida Power & Light Company. In California, FPLE affiliates own and operate 700 MWs of wind, 310 MWs of concentrated solar thermal, 500 MW of combined cycle natural gas at Blythe and 44 MWs of coal in Stockton. Our company brings a unique perspective to this discussion: (1) We have looked at this issue from both the regulated and unregulated interests; (2) We operate in all regions of the country and;(3)We own and operate a diverse portfolio of generation technologies. Our corporation is committed to advancing climate change policies and has actively participated in the development of RGGI protocols in the Northeast as well as federal efforts. We support California's efforts to achieve the goals of AB 32.

RESPONSES TO QUESTIONS

3.1. Evaluation Criteria

Q1. Please comment on each of the criteria listed by the MAC. Are these criteria consistent with AB 32? Should other criteria be added, such as criteria specific to the electricity and/or natural gas sectors? In making trade-offs among the criteria, which criteria should receive the most weight and which the least weight?

The recommendations published in the MAC report were intended for the design of a market based program. Many of the MAC criteria listed below are design parameters that should be addressed separately from the allowance allocation methodology. Some of these criteria are important to consider when designing the allowance allocation methodology, but are more effectively addressed through other program design features.

We would like to suggest the Commission(s) consider the following criteria in addition to those listed in the MAC report;

1. Linkage to other emerging GHG programs is critical to reducing overall reduction costs. Adopted allocation methodology should not hinder such linkage.

2. The effect to California consumers and electric generators if the adopted GHG allowance allocation method was applied regionally or nationally, rather than intrastate.

With respect to the MAC program design principles and objectives, FPLE's comments are:

a. Reduces the cost of the program to consumers, especially low-income consumers,

In order for a market to function, the price signal needs to be sufficiently high enough to promote change in investment and behavior. Needless cost increases can be minimized through placing the point of allowance allocation at or near the point of regulation. The further away the allowance allocation is from the point of regulation, the more hands the allowances will pass through. The more hands the allowances pass through, the greater the potential for price increases. In addition, the impact to low income consumers can be more effectively addressed through the implementation of after market rebates or efficiency programs. These rebates and efficiency programs can be funded through auction revenues.

b. Avoids windfall profits where such profits could occur,

The allocation of allowances is a major factor in setting up a scenario where windfall profits are generated. Cap and Trade programs that utilize free allowance allocation methodologies, such as the Acid Rain Program, lead to potential windfall profits. The risks of windfall profit are minimized when a significant portion of allowances are auctioned as opposed to allocated. This allows the market to maximize value. If free allocations are to be used, the number of allocated allowances should be limited and reduced over time. In addition, an allowance market that employs free

allocations needs to update their baseline for distribution frequently to provide fair allocations to new entrants and to promote the modernization of the generation fleet.

c. Promotes investment in low-GHG technologies and fuels (including energy efficiency),

The allocation of allowances can influence the investment in GHG reduction technologies. The incentives for investment in low-GHG technologies, fuels and reduction measures can be accomplished under an administrative allocation or auction. If allowances are allocated directly to these technologies it will provide economic incentive for their further development. For this reason free allocations should be offered using an output based allocation method (lbs/MWh). This method will reward more efficient generation with a higher allocation of allowances than they would receive under an input based allocation. FPLE also believes it is prudent to establish a set-aside allocation of allowances for renewable projects as incentive for additional investment.

Under an auction, the market value of these technologies increases and provides incentive for their development. Auction revenues should be directed to create incentives for these low emitting technologies rather than being sent to a pool for general distribution. The development of new, cleaner technologies and energy efficiency programs serve to both reduce GHG emissions and may free allowances for existing electric generation technologies.

d. Advances the state's broader environmental goals by ensuring that environmental benefits accrue to overburdened communities

FPLE has no comment on this issue.

e. Mitigates economic dislocation caused by competition from firms in uncapped jurisdictions,

Economic dislocation cannot be addressed solely through a California specific allowance allocation methodology. A larger or linked regional or national program will address this issue more effectively than an allocation scheme. GHG emissions have a real societal cost which has yet to be included into the price of goods and services. The

severity of this impact will be minimized through the development of a program that provides the least cost GHG reductions. Some compensation may be available to disadvantaged businesses affected by GHG reduction in California through the use of revenues collected from an auction.

f. Avoids perverse incentives that discourage or penalize investments in low-GHG technologies and fuels (including energy efficiency)

Same as above in **c.**

g. Provides transition assistance to displaced workers, and

(Similar to response "**e**" above) Directing auction revenues to new technologies will be helpful in ameliorating the impact on displaced workers.

h. Helps to ensure market liquidity.

Free allocation through administrative means presents a greater opportunity for hoarding allowances, which would greatly hinder market liquidity. Auctioned allowances provide the best opportunity to ensure market response, and therefore, liquidity.

3.2. Basic Options

These questions should be answered for both the electricity and natural gas sectors. If your recommendations differ for a load-based or deliverer/first seller point of regulation in the electricity sector, or for the natural gas sector, explain why.

The answers to the questions below are for the electric sector only.

Q2. Broadly speaking, should emission allowances be auctioned or allocated administratively, or some combination?

Regardless of the point of regulation, allowances should be auctioned rather than distributed through a free allocation. Entities that are responsible for more emissions will have to purchase more allowances. This method works for either a source based or a load based point of regulation program. In a load based system, LSEs will have an incentive to reduce the GHG intensity of their portfolio. If sources are the point of regulation,

generators have an incentive to reduce their GHG emissions. Either scenario promotes the modernization of the generation fleet.

Q3. If you recommend partial auctioning, what proportion should be auctioned? Should the percentage of auctioning change over time? If so, what factors should be used to design the transition toward more auctioning?

The ultimate goal of the program should be to transition to 100% auction as quickly as possible. FPLE would not be opposed to an initial free allocation during the first few years of the program as long as the percentage of auction allowances increases to 100%. Economic modeling is necessary to determine the percentage of allowances to be auctioned in the first compliance period and determine at which auctions should reach 100%. National Commission on Energy Policy recommended no more than 50% of allowances be allocated.[3]

Q4. How should new market entrants, such as energy service providers, community choice aggregators, or (deliverer/first seller system only) new importers, obtain emission allowances, i.e., through auctioning, administrative allocation, or some combination?

Under a properly structured auction, new entrants will not need an allocation because allowances will be available via auction. If the allowances are distributed through free allocation, the establishment of a new unit set aside pool of allowances should be used for new entrants. In addition, as long as the liquidity of allowances is maintained, the establishment of a secondary market will provide the opportunity for new entrants to obtain needed allowances. In the case of a free allocation, it is also important to have a periodic updating of the allocation baseline. This will phase out allocations to retired units and free up allowances for new entrants.

3.3. Auctioning of Emission Allowances—General Questions

These questions assume that some or all emission allowances are auctioned, and should be answered for both the electricity and natural gas sectors. If your recommendations differ for a load-based or deliverer/first seller point of regulation in the electricity sector, or for the natural gas sector, explain why.

[3] Taken from National Commission on Energy Policy paper, Allocating Allowances in a Greenhouse Gas Trading System, dated March 14, 2007, p40.

Q5. What are the important policy considerations in the design of an auction?

There are several key elements that should be incorporated into a program that distributes allowances, either partially or wholly, through an auction:

- Administration of the auction – The auction must administered by an independent third party. The revenues from the auction must remain separated from the state General Fund. The revenues must be directed to mitigate impacts, improve efficiency, promote cleaner generation, promote the development of cleaner fuels, and fund R&D projects.

- Liquidity – The allowances must remain liquid to maximize the efficiency of the market.

- Frequency – Auctions need to be held at least quarterly if not monthly. The frequent auctioning of allowances allows regulated entities access to allowances on a consistence basis. This will allow the regulated entities to adjust rapidly to changing market conditions.

- Limit participants – This protects the market from unregulated entities who may hoard allowances and from profiteers who would attempt to needlessly driving up the cost.

- Transparency – The auction structure, pricing, and rules must be simple to understand and transparent.

Q6. How often should emission allowances be auctioned? How does the timing and frequency of auctions relate to the determination of a mandatory compliance period, if at all?

The emissions should be auctioned monthly for the reasons discussed above. The frequency of the auction is not related to the length of the compliance period.

Q7. How should market power concerns be addressed in auction design? If emission allowances are auctioned, how would the administrators of such a program ensure that all market participants are participating in the program and acting in good faith?

If the first seller approach is used, several scenarios exist which may determine who would surrender the allowances for compliance purposes. If an LSE approach is used, concern is lessened, as the entity providing the load will be responsible for the emissions of all the electricity they purchase.

Q8. What criteria should be used to designate the types of expenditures that could be made with auction revenues (including use to reduce end user rates), and the distribution of money within those categories?

The criteria used to designate distribution of revenues from an auction must provide affect reduction in carbon emissions. In addition, some of the funds could be used to lessen the impacts to low income families. Some examples include:

- R&D for new low GHG emitting technologies
- Development of cleaner lower GHG emitting fuels
- Carbon sequestration projects
- Renewable energy projects
- Energy efficiency programs.

Q9. What type of administrative structure should be used for the auction? Should the auction be run by the State or some other independent entity, such as the nonprofit organization being established by the Regional Greenhouse Gas Initiative?

The auction should be administered by an independent third party. The distribution of revenues must be transparent. Given the potential size of the revenues an auction will generate, it is critical these funds be protected from being distributed to programs that do not result in solutions to the problem.

FPLE suggests that California establish a program that could easily transition to a regional or national auction system. As members of the Western Climate Initiative it would be more efficient for California to participate in a regional program. In this case,

we believe that an independent, not-for- profit, entity should be established to manage the auctions.

3.4. Electricity Sector

3.4.1. Administrative Allocation of Emission Allowances

Various methods have been proposed and discussed for the administrative allocation of emission allowances. The following potential methods could be used:

> **a. Grandfathering: "A method by which emission allowances are freely distributed to entities covered under an emissions trading program based on historic emissions." (MAC report, p. 93.)**
>
> **b. Benchmarking: "An allowance allocation method in which allowances are distributed by setting a level of permitted emissions per unit of input or output" (e.g., fuel used or sales to customers (pounds (lbs)/megawatt-hour or lbs/million British thermal units (MMBtu)). (MAC report, p. 90.)**
>
> c. **Updating: "A form of allowance allocation in which allocations are reviewed and changed over time and/or awarded on the basis of changing circumstances (such as output) rather than historical data (such as emissions, input or output). For example, allowances might be distributed based on megawatt-hours generated or tons of a product manufactured." (MAC report, p. 96.)**
>
> **d. Other: Such as population (lbs of carbon dioxide (CO2)/customer or lbs CO2/capita), or cost of compliance (based on retail provider supply curves of emission reduction measures, or a comparable metric).**

Answer each of the questions in this section, first, for a load-based system in the electricity sector and, second, for a deliverer/first seller system in the electricity sector. If your recommendations differ for a load-based or deliverer/first seller point of regulation, explain why.

Q10. If some or all allowances are allocated administratively, which of the above method or methods should be used for the initial allocations? If you prefer an option other than one of those listed above, describe your preferred method in detail. In addition to your recommendation, comment on the pros and cons of each method listed above, especially regarding the impact on market performance, prices, costs to customers, distributional consequences, and effect on new entrants.

If allowances are allocated for free, it should be done in a way that promotes efficiency in generation. This is accomplished most effectively through an allocation methodology that treats sources the same regardless of their fuel type or age. To

transition to a more efficient generation fleet, California should allocate allowances based on the unit output or MWhs. This output based allocation promotes efficiency by rewarding efficient generation units with more allowances than they would receive under an input based allocation methodology. Under an output allocation, the cap for carbon emissions established by CARB will determine where the benchmark is set. Grandfathering of allowances hurts the liquidity of the market, does not promote efficiency, and presents the potential for windfall profits. The price of allowances will be included into the price of electricity regardless of how the allowances are allocated. Allowances distributed based on historical emissions essentially reward generators that emit more pollutants. An output allowance allocation promotes movement toward a more efficient and lower emitting generating fleet.

If allowances are allocated for free, the baseline used to calculate allowance allocation needs to be updated frequently. Frequent updating ensures that the allocation matches the current market conditions. It also allows for new market entrants to receive allocations more quickly rather than have to purchase all their allowances in a secondary market for and extended period. The entrance of new units into the generation mix can also be addressed through a set aside pool of allowances. A three year allocation period would be an appropriate timeframe for updating. Extending the period beyond five years would hinder new market entrants and provide the potential for windfall profits.

Q11. Should the method for allocating emission allowances remain consistent from one year to the next, or should it change as the program is implemented?

The answer depends on the allocation method chosen. If allowances are initially allocated for free, the program should transition to an auction. The time period that utilizes a free allocation should update the baseline allocation every 3-5 years to reflect market changes, retired units, and new entrants. If an auction is implemented, it should either start at 100% or transition to 100% over time.

Q12. If new market entrants receive emission allowance allocations, how would the proper level of allocations be determined for them?

New market entrants should receive allowances from separate, dedicated new unit allowance pool. The level of this pool can be reduced if the program incorporates a frequently updating baseline. A 10% set aside should provide sufficient allowances for new market entrants. The new entrants should be allocated allowances using an output based allowance allocation method.

Q13. If emission allowances are allocated based on load/sales, population, or other factors that change over time, how often should the allowance allocations be updated?

FPL does not recommend such allocation methods. If an updating output based allowance allocation is used, load distribution, efficiency, and population shifts in the market would be accounted for.

Q14. If emission allowances are allocated based on historical emissions "grandfathering") or benchmarking, what base year(s) should be used as the basis for those allocations?

A recent year should be picked for the baseline so the allocation matches the current generation profile.

Q15. If emission allowances are allocated based initially on historical emissions ("grandfathering"), should the importance of historical emissions in the calculation of allowances be reduced in subsequent years as providers respond to the need to reduce GHGs? If so, how should this be accomplished? By 2020, should all allocations be independent of pre-2012 historical emissions?

If a grandfathering allocation method is employed, the allocation should be updated frequently so the allocation is consistent with the current generation profile and market conditions. Updating allocations provide corrections for shifts in the electric generating market and phase-out retired units that should no longer receive allowances.

Q16. Should a two-track system be created, with different emission allowances for deliverers/first sellers or retail providers with legacy coal-fueled power plants or legacy coal contracts? What are the factors and trade-offs in making this decision? How would the two tracks be determined, e.g., using an historical system emissions factor as the cut-off? How should the allocations differ between the tracks, both initially and over time? What would be the market impact and cost consequences to consumers if a two-track method were used?

There should not be a two track system. To do so would create inequities between participants who have already invested in cleaner and higher cost generation technologies.

Q17. If emission allowances are allocated administratively to retail providers, should other adjustments be made to reflect a retail provider's unique circumstances? Comment on the following examples, and add others as appropriate:

a. Climate zone weighting to account for higher energy use by customers in inclement climates, and

If LSEs are the point of regulation, the same concepts should be applied across all entities. The rules of allocation should not be different for different regions. Regions that have already invested in a cleaner generation profile should not be penalized for prior investment. In addition, each region should have to pay for the modernization of their generation fleet.

b. Increased emission allowances if there is a greater-than-average proportion of economically disadvantaged customers in a retail provider's area.

Impacts to low income consumers are better addressed through programs other than allowance allocation methodology. The reinvestment of some auction revenues could provide relief to low income consumers but should not be distributed by region.

Q18. Should differing levels of regulatory mandates among retail providers (e.g., for renewable portfolio standards, energy efficiency investment, etc.) be taken into account in determining entity-specific emission allowance allocations going forward? For example, should emission allowance allocations be adjusted for retail providers with high historical investments in energy efficiency or renewables due to regulatory mandates? If those differential mandates persist in the future, should they continue to affect emission allowance allocations?

The use of renewables and energy efficiency will be reflected in the overall emissions profile. The reward will be a lower compliance obligation for the purchase of allowances. FPLE supports a set aside of allowances to reward energy efficiency programs and renewable technology investments.

Q19. How often should the allowance allocation process occur? How far in advance of the compliance period?

The frequency of allowance allocations should be coordinated with the compliance period. Another factor to consider before determining the allocation date is the length of the compliance period. The allocation should be one to three years in advance of the compliance period. Compliance periods should be no longer than 3 years.

Q20. What are the distributional consequences of your recommended emission allowance allocation approach? For example, how would your method affect customers of retail providers with widely differing average emission rates? Or differing rates of population growth?

The regulated entities are required to adjust to changes in electricity market. Electricity providers will need to adjust to changes in market conditions in order to protect their customers. The more frequent the baseline update and the allocation, the more closely the program will respond to market conditions. The modernization of California's generation fleet will be required for the state to meet their GHG goals. Those changes will come from existing clean technologies and future advancements in generation technology. A free allocation methodology is not the most effective way to promote those changes. The sooner the allocation moves toward an auction, the sooner the revenues can be invested in the development of the clean technologies needed to reach California's GHG targets.

3.4.2. Emission Allowances with a Deliverer/First Seller Point of Regulation

Q21. Would a deliverer/first seller point of regulation necessitate auctioning of emission allowances to the deliverers/first sellers?

The first seller approach does not necessarily necessitate the auctioning of allowances but it is recommended. As mentioned in response to other questions, FPLE would recommend transitioning to 100% auction as soon as feasible.

Q22. Are there interstate commerce concerns if auction proceeds are obtained from all deliverers/first sellers and spent solely for the benefit of California ratepayers? If

there are legal considerations, include a detailed analysis and appropriate legal citations.

FPLE has no comment on this question.

Q23. If you believe 100% auctioning to deliverers/first sellers is not required, explain how emission allowances would be allocated to deliverers/first sellers. In doing so, answer the following:

a. How would the amount of emission allowances given to deliverers/first sellers be determined during any particular compliance period?

FPLE recommends the auction be 100%.

b. How would importers that are marketers be treated, e.g., would they receive emission allowance allocations or be required to purchase all their needed emission allowances through auctions? If allocated, using what method?

Specifically designed allocation methodologies to pander to specialty regulations should be avoided. Either the seller or the buyer would be responsible for the emissions related to the purchases power depending on the point of regulation.

c. How would electric service providers be treated?

Under a first seller approach, the electric service providers would only be responsible to purchase allowances equal to emissions from electricity purchased from sources outside of California.

d. How would new deliverers/first sellers obtain emission allowances?

If the auction were conducted frequently, new entrants would have the same access to allowances as all other sources/retailers. Under a free allocation method, a new unit set aside coupled with frequent updating of the baseline would accommodate the needs of new market entrants.

e. Would zero-carbon generators receive emission allowance allocations?

If a goal of the program is to promote the development of zero emitting generation, an allocation to these generators would provide incentive to develop new projects. FPLE suggests a set aside for zero emitting generation.

f. What would be the impact on market performance, prices, and costs to customers of allocating emission allowances to deliverers/first sellers?

An allocation of allowances and auction would have similar if not the same effects on the price of electricity. The difference is that an auction provides a pool of revenues to finance solutions and mitigate the impacts of a carbon reduction program.

g. What would be the likelihood of windfall profits if some or all emission allowances are allocated to deliverers/first sellers?

Windfall profits are a real and valid concern with a free allocation of allowances to sources. History has shown that the price of allowances will be included in the price of electricity whether the allowances are distributed for free or purchased. Windfall profits occur when higher profits are realized absent of an improvement in emissions and/or efficiency.

h. How could such a system prevent windfall profits?

If allowances are allocated for free, the inclusion of an output based allocation methodology, frequently updating baseline, and frequent allocations will reduce the likelihood of windfall profits. In addition, the allocation should be transitioned to an auction as soon as practical.

Q24. With a deliverer/first seller point of regulation, should administrative allocations of emission allowances be made to retail providers for subsequent auctioning to deliverers/first sellers? If so, using what allocation method? Refer to your answers in Section 3.4.1., as appropriate.

No. This is not an efficient use of an allocation and trading program. If the price signal never reaches consumers, the intent of a market based mechanism is defeated. The result would be an increase in cost and risk to generators with no change in energy consumption. Also, there are some competition concerns because some energy providers also own and develop generation assets.

Q25. If you recommend allocation of emission allowances to retail providers followed by an auction to deliverers/first sellers, how would such an auction be administered? What kinds of issues would such a system raise? What would be the impact on market performance, prices, and costs to customers?

FPLE does not support this concept.

3.5. Natural Gas Sector

FPLE does not have any comments.

Q26. Answer each of the questions in Section 3.4.1. except Q16, but for the natural gas sector and with reference to natural gas distribution companies investor- or publicly-owned), interstate pipeline companies, or natural gas storage companies as appropriate. Explain if your answer differs among these types of natural gas entities. Explain any differences between your answers for the electricity sector and the natural gas sector.

FPLE does not have any comments.

Q27. Are there any other factors unique to the natural gas sector that have not been captured in the questions above? If so, describe the issues and your recommendations.

FPLE does not have comment.

3.6. Overall Recommendation

Q28. Considering your responses above, summarize your primary recommendation for how the State should design a system whereby electricity and natural gas entities obtain emission allowances if a cap and trade system is adopted.

The Global Warming Solutions Act of 2006 added to CA HSC Division 25.5, 38501:

> "(h) It is the intent of the Legislature that the State Air Resources Board design emissions reduction measures to meet the statewide emissions limits for greenhouse gases established pursuant to this division in a manner that minimizes costs and maximizes benefits for California's economy, improves and modernizes California's energy infrastructure and maintains electric system reliability, maximizes additional environmental and economic co-benefits for California, and complements the state's efforts to improve air quality."

In order to decrease the cost of carbon to consumers, the allowance allocation needs to be as close as possible to the point of regulation. This is most effectively accomplished through an auction of allowances. A free allocation of allowances does not ensure the regulated entity has access to the needed allowances[4]. Further, free allocation of allowances heightens the opportunity for windfall profits. History and economic theory suggest that free allocation of allowances will not prevent the price of allowances from being included into the price of electricity. In short, it would not shield the consumer from price increases.

The auctioning of allowances must be conducted through an independent third party. It is important for the revenues from the auction to be distributed programs that provide solutions and mitigate impacts. In order for California to meet their GHG emissions goals, the state will need to employ emerging technologies. In addition, they will have to increase energy efficiency programs, renewable energy portfolio standard goals, zero emitting technologies, and clean fuel technologies. Auction revenues provide the capital to make those things happen. If any portion of the revenues is funneled to the state General Fund without being directed to carbon emissions reductions, the program may lose credibility.

California must be careful when selecting the allowance allocation methodology. Decisions made in California have the potential to influence national policy. If the nation adopts a free allocation methodology, California exposes its consumers to the costs of cleaning up emissions in states or regions with less efficient generation portfolios. At minimum, California needs to adopt an output based allowance allocation methodology.

[4] Taken from National Commission on Energy Policy paper, Allocating Allowances in a Greenhouse Gas Trading System, dated March 14, 2007

CONCLUSION

FPLE appreciates this opportunity to provide comments to the Commission(s). FPLE supports the auction of 100% of the allowances. We feel this approach promotes efficiency, supplies revenue for mitigation, and generates the capital needed for investment in clean generation. If the Commission(s) decides an initial free allocation period is needed, the transition to 100% auction should be completed as soon as possible, allowances should be allocated based on output, the baseline must be updated frequently, and incentives should be provided for investment in low emitting technologies.

Respectfully submitted,

FPL Energy Project Management, Inc.

/s/ Diane I. Fellman

/s/ Kyle Boudreaux

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October 31, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing document

COMMENTS OF FPL ENERGY PROJECT MANAGEMENT, INC. ON ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING COMMENTS AND NOTICING WORKSHOP ON ALLOWANCE ALLOCATION ISSUES

On all parties of record in the above captioned proceedings by serving an electronic copy on their email addresses of record, by overnight mail to the Assigned Commissioner and Administrative Law Judges and, for those parties without an email address of record, by mailing a properly addressed copy by first-class mail with postage prepaid to each party on the Commission's official service list for this proceeding as posted on the California Public Utilities Commission's website for proceeding R.06-04-009.

This Certificate of Service is executed on October 31, 2007 at Juno Beach, Florida.

/s/ Diane I. Fellman

_____

Diane I. Fellman

SERVICE LIST FOR A.06-04-009
(October 30, 2007)

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